

Message Text

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TO SECSTATE WASHDC PRIORITY 7424

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C O N F I D E N T I A L NEW DELHI 11152

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TAGS: EAIR, IN

SUBJECT: INDIAN AIRLINES REQUIREMENT FOR TWINJET AIRCRAFT

REF: ROME 11561, NEW DELHI 9795, EXECUTIVE VPBEIM LETTER
TO AMBASSADOR SAXBE JULY 13.

1. SUMMARY. INDIAN AIRLINES AIRCRAFT SELECTION COMMITTEE HAS
APPARENTLY REACHED PRELIMINARY TECHNICAL DECISION FAVORING BOEING AD-
VANCED 737-2A8 (737-200) OVER BRITISH AIRCRAFT CORPORATION BAC
111-475 AND FOKKER-VFW F-28 MARK 4000 TO MEET AIRLINE'S PRESSING
TWINJET REQUIREMENTS. HOWEVER, IN VIEW HIGHLY CONCESSIONAL
AND ATTRACTIVE FINANCING OFFERED SEPARATELY BY BAC (SUPPORTED
BY ECGD AND LLOYDS BANK) AND FOKKER-VFW ENCOMPASSING 8 0/0
ANNUAL INTEREST, TEN-YEAR REPAYMENT PERIOD AND 90 0/0 COVER-
AGE, EMB IF INCLINED TO BELIEVE INDIAN AIRLINES OFFICIALS CONTEN-
TION THAT DESPITE TECHNICAL ADVANTAGE US FINANCING PACKAGE MUST
BE COMPETITIVE IF BOEING HOPES TO REMAIN IN THE RUNNING. AT STAKE
ARE ORDERS FOR POSSIBLE TEN US-BUILD TWINJETS BY 1980, VALUED AT
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\$105 MILLION; FIRST ORDERS WOULD BE PLACED NEXT MONTH COVERING

THREE TO FIVE AIRCRAFT VALUED AT \$33 TO \$54 MILLION. IN VIEW OF THIS SUBSTANTIAL MARKET POTENTIAL AND THE DESIRABILITY OF FURTHER AMERICAN PRESENCE IN INDIA'S DOMESTIC TRANSPORT SYSTEM, EMB STRONGLY ENCOURAGES EXIMBANK SUPPORT THIS SALE. TO A CONSIDERABLE DEGREE, LAST YEAR'S LOSS BY LOCKHEED TRISTAR TO A-300 AIRBUS WAS DUE TO CONCESSIONAL EUROPEAN FINANCING. POLITICAL CONSIDERATIONS ARE ALWAYS OF IMPORTANCE IN AIRCRAFT SALES AND IN INDIA IN THIS REGARD US MAY FACE CERTAIN DISADVANTAGES. EMB BELIEVES, THEREFORE, THAT IN ADDITION TO TECHNICAL SUPERIORITY COMPETITIVE FINANCING IS VITAL IF US AIRCRAFT ARE TO REMAIN IN CONTENTION. END SUMMARY.

2. ON JUNE 28 RCAA WITH EMB OFF VISITED INDIAN AIRLINES HEADQUARTERS AND CALLED ON ACTING MANAGING DIRECTOR A. H. MEHTA, PLANNING MANAGER J. K. CHAUDHURI AND FINANCE DIRECTOR KRIPAL CHAND. ALL THREE OFFICIALS ARE MEMBERS AIRCRAFT SELECTION COMMITTEE WHO WILL DECIDE ON NEW TWINJETS FOR THE AIRLINE.

3. AIRLINE BOARD MEETING TO REACH DEFINITIVE TWINJET ACQUISITION DECISION POSTPONED FROM JULY 28 TO AUGUST 16, MOST PROBABLY TO PERMIT ATTENDANCE BOARD MEMBER (AND AIR-INDIA CHAIRMAN) J.R.D. TATA. BOARD DECISION WILL TRIGGER A FOUR-YEAR ACQUISITION PROGRAM FOR TEN TWINJETS TO REPLACE EXISTING OBSOLESCENT TURBO-PROP AIRCRAFT ON DOMESTIC SECTORS. COMPETING FOR ORDER ARE BOEING ADVANCED 737-2A8, BAC 111-475, AND FOKKER VFW F-28 MARK 4000.

4. BOEING OFFER INITIALLY COVERS THREE TO FIVE AIRCRAFT (VALUED AT \$33-\$54 MILLION) EQUIPPED WITH UPRATED P & W JT8D-17R ENGINES AND LOW-PRESSURE TIRES. THESE SPECIAL FEATURES EFFECTIVELY REMOVED ORIGINALLY DOUBTS OF INDIAN AIRLINES PLANNERS CONCERNING 737'S OPERATIONAL CAPABILITY INTO AND OUT OF SECONDARY AND MARGINAL DOMESTIC AIRPORTS. BOTH EMB AND BOEING REP HAVE BEEN INFORMED SEPARATELY BY AIRLINE THAT ADVANCED 737-2A8 IS TECHNICAL CHOICE OF AIRLINE'S SELECTION COMMITTEE AND WILL BE SO RECOMMENDED TO BOARD, PROVIDED U.S. CONCESSIONAL FINANCING EQUIVALENT TO BRITISH AND DUTCH OFFERS WILL BE MADE AVAILABLE.

5. WE WERE INFORMED BY CHAUDHURI AND CHAND THAT UNLESS U.S. CAN OFFER A PACKAGE COVERING 8 0/0 INTEREST OVER TEN YEARS AT 90 0/0 COVERAGE, THE AIRLINE MAY BE FORCED TO OVERRIDE ITS TECHNICAL PREFERENCE FOR THE ADVANCED 737-2A8'S AND ACQUIRE EITHER BAC 111-475'S

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OR F28 MARCH 4000'S. CHAND STATES BAC AND FOKKER - VFW FINANCING OFFERS EXPLICITLY PROVIDE 8 0/0, 10-YEAR, 90 0/0 COVERAGE TERMS, THESE LETTER OFFERS ARE IN HIS POSSESSION. HE PROMISED RCAA/ EMB OFF THAT PRIOR COMPLETION ANY DEFINITIVE EXIMBANK -- INDIAN AIRLINES LOAN AGREEMENT, THESE LETTERS WOULD BE TURNED OVER TO EXIMBANK BY CHAND ON NEXT TRIP TO WASHINGTON. MICHAEL FITZGERALD, BOEING'S REGIONAL DIRECTOR, CLAIMS TO HAVE SEEN THE BAC AND FOKKER LETTERS AND EMBASSY HAS NO REASON TO DOUBT THAT THESE

LETTERS DO XIST, THAT THEY ARE IN THE POSSESSION OF MR. CHAND, AND THAT THE BRITISH AND DUTCH OFFERS COVERING 8 0/0 INTEREST AND 90 0/0 COVERAGE AND TEN-YEAR TERMS ARE BONA-FINDE.

6. ALTHOUGH THE FIRST PORTION OF INDIAN AIRLINES' TWINJET ACQUISITION PLANNING COVERS THREE TO FIVE AIRCRAFT, EARLY FOLLOW-UPS BRING TOTAL VALUE AIRLINE'S TWINJET ORDERS TO \$105 MILLION BY 1980. EMBASSY BELIEVES THAT UNLESS WE CAN PRODUCE SUBSTANTIAL FORWARD MOVEMENT ON FINANCING, AND QUICKLY, THIS MARKET WILL BE LOST, CLOSING OUT A SIGNIFICANT SOURCE OF U.S. COMMERCIAL AIRCRAFT SALES. WE WOULD THEN BE CONFRONTED WITH AN INDIAN AIRLINES EUROPEAN FLEET OF A-300B'S AND BAC 111-475'S OR F-28'S.

7. CHAND SIGNIFICANTLY STATED THAT INDIAN AIRLINES LAST YEAR SELECTED THE AIRBUS INDUSTRIE -300B2 AIRBUS OVER THE INITIALLY PREFERRED LOCKHEED-CALIFORNIA L-1011 TRISTAR DUE TO MORE ATTRACTIVE FINANCING TERMS OFFERED BY AIRBUS INDUSTRIE AND WEST EUROPEAN BANKS IN SUPPORT OF THE AIRBUS. CHAND STATED THESE TERMS ENCOMPASSED THE FAMILIAR 8 0/0 ANNUAL INTEREST, 90 0/0 COVERAGE, AND TEN YEAR REPAYMENT SCENARIO. HE INDICATED THAT EFFECTIVE INTEREST RATE OF THE U.S. FINANCING PACKAGE IN SUPPORT OF LOCKHEED WAS APPROXIMATELY TWO POINTS ABOVE THE EUROPEAN FIGURE.

8. EMBASSY URGES EARLY AND FAVORABLE EXIMBANK CONSIDERATION TO MEET INDIAN AIRLINES REQUIREMENT IN SUPPORT OF ACQUISITION TECHNICALLY SUPERIOR BOEING TWINJETS. AIRLINE MUST COMPLETE AIRCRAFT SELECTION STUDY BY AUGUST 12 AND REQUIRES EARLY INDICATION FINAL US FINANCING OFFER BEFORE AIRLINE'S STAFF SENDS RECOMMENDED DECISION TO BOARD FOR AUGUST 16 MEETING.

9. INDIAN AIRLINES ACQUISITION DECISION MUST BE FORWARDED BY BOARD TO GOI MINISTRY OF FINANCE, MINISTRY OF CIVIL AVIATION, H
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MINISTRY
OF PLANNING, AND PUBLIC INVESTMENT BOARD
PRIOR TO FINAL
APPROVAL. AT THIS STAGE CONSIDERATIONS ABOVE PURELY TECHNICAL AND FINANCIAL MATTERS COULD BE INJECTED INTO THE DECISION. EMBASSY BELIEVES BOTH BRITISH AND DUTCH GOVERNMENTS HAVE SUPPORTED SALES EFFORTS OF THEIR AIRCRAFT. EMBASSY UNDERSTANDS MARUTI (IN WHICH SANJAY GANDHI HAS INTEREST) IS NEGOTIATING FOR BAC AGENCY IN INDIA. THESE AND PERHAPS OTHER POLITICAL FACTORS, NONE OF WHICH SEEM TO FAVOR US PROCUREMENT, COULD HAVE A BEARING ON THE FINAL OUTCOME. FOR THIS REASON EMBASSY BELIEVES THAT IN ADDITION TO TECHNICAL SUPERIORITY COMPETITIVE FINANCING IS VITAL IF US AIRCRAFT ARE TO REMAIN IN CONTENTION.
SAXBE

NOTE BY OC/T: NOT PASSED EXIMBANK PER INSTRUCTIONS SS-O.

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